

CALIFORNIA DEPARTMENT OF INSURANCE
LEGAL DIVISION
Fraud Liaison Bureau
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Attorneys for The California Department of Insurance

**BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA**

In the Matter of the Rates, Rating Plans, or
Rating Systems of

**SAFECO INSURANCE
COMPANY OF AMERICA,**

Respondent.

File No. NC 06-093080

**NOTICE OF HEARING AND ORDER TO
SHOW CAUSE WHY RESPONDENT'S
HOMEOWNERS' INSURANCE RATES ARE
NOT EXCESSIVE AND IN VIOLATION OF
INSURANCE CODE SECTION 1861.05**

TO: SAFECO INSURANCE COMPANY OF AMERICA:

YOU ARE HEREBY NOTIFIED that the Insurance Commissioner of the State of California (hereinafter "the Commissioner") has good cause to believe that the rating plans, rating systems and rates of Respondent **SAFECO INSURANCE COMPANY OF AMERICA** (hereinafter "SAFECO" OR "Respondent") are in violation of Insurance Code §1861.05 because the rates for its Homeowner's Multi-peril insurance lines are excessive and cannot legally remain in effect. Respondent is ordered to appear and show cause why its Homeowner's Multi-peril insurance rates are not excessive and should not be lowered.

This hearing will be subject to California Insurance Code §1861.08 and will be held before the Department of Insurance Administrative Hearing Bureau. The Administrative Hearing Bureau will set the time and place for the hearing. This hearing will extend to all matters upon which the Commissioner may act pursuant to Insurance Code §1861.05. Pursuant to California

1 Code of Regulations, Title 10, §2646.5, Respondent shall have the burden of proving that
2 each rate is justified and meets all requirements of the Insurance Code.

3 This Order to Show Cause and Notice of Hearing is issued pursuant to Insurance Code
4 §1861.08(b) and California Code of Regulations, Title 10, §2646.5. To respond to this Notice of
5 Hearing, Respondent must file an original and four (4) copies of a "Notice of Defense" or similar
6 responsive document with the Department's Administrative Hearing Bureau in San Francisco,
7 within fifteen (15) days of service of this Notice. A copy of the Respondent's response and proof
8 of service shall be served upon Antonio A. Celaya, Senior Staff Counsel, at the Department's San
9 Francisco Legal Office, 45 Fremont Street, 21st Floor, San Francisco, CA 94105.

10 The manner and extent of noncompliance are set forth below.

11 **I. GENERAL ALLEGATIONS**

12 1. Respondent is, and was at all relevant times an insurer licensed to transact, and
13 did, transact, the business of insurance in the State of California including Homeowner's
14 Multi-peril insurance.

15 2. California Insurance Code §1861.05(a) states in pertinent part:

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17 No rate shall be approved or remain in effect which is excessive, inadequate, unfairly
discriminatory or otherwise in violation of this chapter.

18 **II. RESPONDENT'S VIOLATIONS OF STATUTE AND REGULATION**

19 **A. SAFECO'S CURRENT HOMEOWNERS' INSURANCE RATES ARE 20 EXCESSIVE UNDER ITS CURRENT FINANCIAL CONDITIONS**

21 3. The Department incorporates by reference paragraphs 1-2 above.

22 4. During 2003 in California Department of Insurance rate filing application No.
23 03-5583, Respondent applied for a rate increase in its Homeowners' Multi-peril
24 Insurance program. The rate increase was approved and put into effect during
2003.

25 5. At the time Respondent's homeowner's rates were approved in 2003 its rates
26 were not excessive based upon the loss projections in its rate application. In rate
27 application no. 03-5583, SAFECO and two affiliate companies provided
28

1 information upon which a loss ratio of 68.28% was estimated for future losses.
2 Respondent's rate increase was predicated upon the information provided by
3 Respondent. That prediction of losses compared to premium dollars earned has
4 proven to be materially too high. The actual losses were far less than originally
5 predicted and Respondent's rates are now excessive.
6

7 6. On or about March 1, 2006 Respondent reported on annual loss ratios in its 2005
8 annual report filed with the Department under penalty of perjury. The loss ratio
9 is the ratio of monies Respondent paid on claims compared to the dollars it
10 collected in premium for Homeowner's Multi-Peril insurance. In 2002
11 Respondent's loss ratio was 53.57% and Respondent made substantial profits on
12 its Homeowners' Multi-peril line of insurance.
13

14 7. During 2003, 2004 and 2005 Respondent's loss ratios calculated by calendar year
15 radically dropped to 38.69%, 24.23% and 26.31% respectively. There is reason
16 to believe that Respondent's loss ratios as calculated by its "accident year,"
17 which is the period by which Respondent calculates rates, have dropped
18 precipitously, to the benefit of Respondent. This is substantial evidence that the
19 predictions submitted to the Commissioner, and which were the basis for
20 approval of Respondent's rates, were inaccurate and that Respondent's rates are
21 now excessive.
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23 8. The earned premium received by California's top 20 Homeowner's insurers
24 increased by more than 61% between 2001 and 2005. However, the losses per
25 dollar of earned premium received in 2005 are significantly less than in 2001.
26 While income and profits have risen, and the number of claims have diminished
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1 in recent years Respondent and other top insurers have failed to seek rate
2 decreases, thereby denying consumers a competitive market.

3 9. Excessive rates must be determined in part using a determination of an insurer's
4 projected losses, as that term is defined in California Code of Regulations, Title
5 10, §2644.4(a). Respondent's rates were approved based upon Respondent's
6 projected losses. Respondent's actual losses have in fact been far less than
7 Respondent predicted.
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9 10. The number of claims on Homeowner's Multi-peril insurance policies in
10 California has drastically fallen. There is reason to believe that the number of
11 claims submitted to Respondent from its Homeowner's Multi-peril policy
12 holders has significantly decreased. At the same time a variety of factors have
13 increased the income to insurers transacting Homeowner's Multi-peril policies in
14 California.
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16 11. Respondent transacts various lines of insurance in various parts of the United
17 States. Respondent's return last year was an astounding 22.84%. In 2003 when
18 Respondent made its rate application there was no reason to believe that its
19 return would be as large as it has proven to be. Given the increase in its premium
20 income and the decrease in the claims per dollar of premium it receives there is
21 every reason to believe that Respondent's Homeowner's Multi-peril lines in
22 California will continue to approach the same level of profitability.
23

24 12. The Commissioner has cause to believe that there may be a variety of factors that
25 contribute to Respondent's reduction in its losses. Whatever factors have
26 contributed to this reduction the result is that Respondent's Homeowner's Multi-
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1 peril rates are excessive within the meaning of Insurance Code section
2 1861.05(a).

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4 **III. PRAYER FOR RELIEF**

5 13. Based upon the foregoing the Department requests a hearing under the
6 procedures set forth in California Code of Regulation, Title 10, §§ 2646.1 *et seq.*
7 and 2648.1 *et seq.*

8 14. The Department requests a finding that Respondent's homeowner's rates are
9 excessive, and finding of the appropriate and reasonable rate, and an Order
10 requiring Respondent to utilize the rates found to be reasonable based upon the
11 evidence presented at hearing, and such other relief as the judge of the
12 Administrative Hearing Bureau may find to be appropriate.

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14 Dated: _____.

CALIFORNIA DEPARTMENT OF INSURANCE

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16 By _____
17 Antonio Celaya
18 Senior Staff Counsel
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